Memorandum

Subject Telephone Interview With [redacted]	Date July 31, 1996 60-2096-0002

To Files

From William P. Jones WPJ

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Today, Nina Hale and Jill Ptacek spoke with [redacted]

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Exempt under b4, b7D

[redacted]

[redacted] snacks strategy (as well as with its other products) is to allocate shelf space to each product category based on accurate sales statistics; [redacted] allots a normal [redacted]

[redacted] aisle in its stores to salty snacks and other snack lines based on these modeled electronic demographic data programmed to determine optimal profitability for given stores, given the configurational uniqueness of every store and its demographic considerations. There is no fixed maximum or minimum space restriction on salty snacks placement. [redacted] relies heavily on the modeling to figure out how everything should unfold. [redacted] says [redacted] is known to give a maximum of [redacted] to salty snacks when justified by demonstrated sales. This does not include separate figures from non-gondola off-shelf displays. [redacted] offers many satellite displays to snack vendors for product-driving incremental sales. [redacted] has limited authority to approve such display options throughout the chain. b7D

[redacted]

[redacted]

Frito-Lay has the majority of snack sales in Southern California [redacted] And this was always the case, even when Eagle snacks existed and competed head to head with Frito-Lay. When Eagle exited the market in February of 1996, [redacted] b70

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Frito-Lay has different programs for its different products such as potato chips, tortilla chips, etc., on a yearly basis. Its overall program contains allocations of dollars for each segment (potato and tortilla chips, pretzels, cheese items) of its product line. [redacted]

The Nature of Snack Vendor Negotiations

[redacted] and its snack vendors annually negotiate mutual goals in a category management meeting wherefrom a "working game plan" is devised that is normally not dependent on a written contract. Not only snack vendors but other vendor/manufacturers such as Proctor & Gamble, DelMonte, Kelloggs and Lever Brothers, each national companies, sit down with the grocery chain and negotiate a tentative mutual sales plan for the upcoming year. The basis of the negotiation is normally a measurement of how many "cases of product" the parties expect to be sold during a specified period/year and the vendor will offer a certain dollar amount per case as an allowance; on a one-per-one quid pro quo basis, the vendor pays out an incentive for all sales from Vons. In the snack line, [redacted] expects this customary arrangement of one-for-one to hold true and finds it has done so reliably and profitably in its recent operation. By terms of the arrangement, each unit sale of product cases brings [redacted] an award of a future wholesale discount, and this has an rollover effect through the selling year. According to [redacted] he does not discuss an incremental new year versus old year sales rebate or payment with Frito or anyone. The only allowance ever negotiated between such parties is: "sell one case and you thereby reap a vendor discount." [redacted] subscribes to no other incentive mechanism in its business. [redacted] says that [redacted] receipt of its cash discount prize can either be pocketed for anything the company likes, or it can be applied to advertising promotions for the paying vendor's products if its computer model indicates bottom line major profit enhancement for Vons in doing this. [redacted] added that to drive sales, [redacted] modeling structure is conditioned on "delivery of the volume." This is the ultimate goal on its underlying yearly plan. Without a series of incremental year-to-year growth funds to work with and renew, the sole sweetener is structured from direct sales. Usually, [redacted] is permitted to keep the discount allowances without pressure to divert some of the cash to

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manufacturer promotions. [redacted] says there is no "black or white" at [redacted] executive level in deciding how this bonus money is treated and spent. They decide alone.

[redacted]

Some products are treated with a slightly different twist. Normally the new item offered to [redacted] must have an "offset" to protect the retailer; plus, at times, a promotional fee with enough money to "kick off" the new product to the public must also be provided by the manufacturer to aid its chances for successful sales from the outset.

[redacted] does not charge for end caps, but its specific Category Manager instead determines (per [redacted] computer models) whether permitting a vendor certain off-shelf space is in the chain's overall interest. Such a decision is normally reached during yearly negotiations held far in advance of the end cap award. Once again, [redacted] does not accept additional growth money for end cap and satellite space but relies upon the "one for one, box for box," earned discount sales basis for its end cap income bonus.

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[redacted] shelf space management is based on a simulated computer-generated "space to sales" allocation basis, known technically as "scanned product movement at store level." For this reason, <u>any</u> rash Frito demand, perhaps seen in distant markets, such as "why don't you give 25 extra shelf feet" for maximum sales and incentives for yourself would be met with total denial, based on [redacted] computer record and [redacted] policy. In order for F-L to overrule [redacted] concept, it would have to convince the chain management of a super-profitable interest in promoting the growth of a special sales-leading Frito product and only then might [redacted] justify a significant (and temporary) space re-allocation. [redacted] made this prospect sound very unlikely. He said he is not aware of Frito-Lay's present volume and percentage of snack sales at [redacted] He did not think it was [redacted] per cent.

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Power of the Category Manager

The [redacted] may discontinue a selected snack manufacturer based on the computer data modeled on a store by store basis. Such a decision is founded on [redacted] "space to sales" formula and is closely examined. [redacted] states that his salty snack margins are slightly higher than most products to begin with, but after the frequent and obligatory markdowns to much smaller margins to meet [redacted] retail competitors, the end salty snack margin is very slim, reflecting a bag price that can drop practically to "cost." Salty snack products often end up being used at strategic times as loss-leaders, such as at Super Bowl week and during the summer when snacks purchases are brisk, to lure shoppers into the [redacted] environment. But [redacted] noted, it's never necessary for a chain to plummet to the point that it has to sell salty snacks at a loss.

[redacted] Policy on Partially Stocked Shelves

At [redacted] salty snack vendors must keep their product stocked not only at the "space" front facing portion of the gondola, but must fully stock (more or less) all sales racks; any deviation from this rule is unacceptable to [redacted] Significantly, [redacted] instituted a new re-set program whereby its stock shelves are stocked by product and not by manufacturer brand, all in one place. All taco chips will be displayed together, as are all brands of pretzels, etc. b7D

Category Captains

[redacted] admits that [redacted] does use "Category Captains" recruited from major vendors in different product categories. He did not know which company was most recently chosen to man the salty snack Category Captain role and now assists [redacted] He says that the company that is awarded the Category Captain must send an objective person ready to behave [redacted] not overly partisan for his own company to qualify. The company and its individual must not try to opportunists; if this seems to be the case, that company will be told its person is unacceptable and must leave [redacted] stated objective is that whoever serves the Category Captain role works strictly in Vons' interest.

SHELF SPACE COMPUTER MODELING BASIS

[redacted] shelf space management (which is computer based) has a frequency of readjustment that gets triggered by new items coming into the chain and also by a four-week update report created to recap cumulative developments; the Category Manager prepares his own "report card" to the company about the period, providing a new snacks snapshot. His report reviews the chain's category profitability and numerous related factors. [redacted] says the frequency of computer remodeling is "almost ongoing," akin to a monthly check-up for Vons. b7D

Snack Maker Communication with [redacted]

[redacted] also stated that there is no salty snack manufacturer minimum space allowance or requirement at [redacted] but that the "space to sales" formula rules and guides management; it is what [redacted] cares about on the bottom line. He has not heard of snack vendors complaining or demanding help concerning a desire for minimum linear foot space in order to survive, or a need to show off their great and full product variety. What they do talk about is how to "drive sales" forward and how to initiate sales most effectively at [redacted] added that [redacted] calculates into its computer factoring the notion that it really does not need six taco chip competitors on the same shelf, or the like. To help salty snack manufacturers, especially the smaller ones, shelf space boosters such as end caps, towers and islands are offered periodically to enhance their small position and jump sales volume. [redacted] states that typical [redacted] store layouts are capacious and generally provide plenty of space for additional satellite displays, should vendors desire to test that area. In addition, there are many [redacted] stores that provide large stand-alone space possibilities for niche manufacturers, the little players. [redacted] states that when negotiations are underway, snack manufacturers are given options that can fold into the deal, such as having 20 end displays and other off-shelf displays during the year. The whole vendor program is more or less agreed upon before the new year starts. Then [redacted] headquarters tells its stores that there is a certain space available for satellite promotions during a specified time and that, for instance, a beverage like Coke, Gatorade, a named snack food manufacturer, or someone else is supposed to fill this place. This is how Category Managers' yearly programs come together in terms of specific agreement goals between [redacted] and its vendors.

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Shelf Space Advantages and "First Position"

[redacted] considers that the only concept of "first position" applicable to [redacted] is that its own private label products always get first and best location, if at all possible. This is done by human decision, never by remote computer calculation. In this way, [redacted] Private label products are placed at eye level to the consumer and first position is only sold to a company like Frito on a negotiated, high-cost basis.

PROSPECT OF NEW SNACK MANUFACTURER COMING TO [redacted]

Asked whether [redacted] would permit a new snack manufacturer to come into its chain, [redacted] stated that it would be possible and that the following procedure would obtain: 1) The snack manufacturer would have to prove that it had a <u>strong</u> marketing program such as a television, radio or other vehicle advertising platform, much like Frito-Lay projects; 2) It would have to have a unique product or products that could ensure good sales; and, 3) its quality would have to be absolutely superb.

All of these factors would have to be demonstrated for a new salty snack manufacturer to enter [redacted] sales domain. [redacted] b7D stated that there would be no special fees extracted from such a new snack manufacturer other than the fees previously indicated above [redacted] closed by telling us [redacted] would be eager to give space to a new manufacturer if it came as a reliable manufacturer. Asked his response if Frito-Lay tried to throw money at [redacted] to block entry of a new snack line, he said [redacted] would reject Frito's bid.

Finally, [redacted] was not aware of any Frito rebates or end year payments that Frito would have recently started supplying to [redacted] He restated that snack vendors pay only discounts on pure box for box sales results, and that would continue to be [redacted] corporate policy.

So/So # 12099